

Message Text

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60

ACTION NEA-16

INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01 USIA-15

SEC-03 DRC-01 /195 W

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R 081313Z AUG 74

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 3473

INFO AMEMBASSY LONDON

C O N F I D E N T I A L TEL AVIV 4522

E.O. 11652: GDS

TAGS: EFIN, IS

SUBJ: ISRAEL-BRITISH BANK LTD FAILURE

REF: (A) TEL VIV 4255; (B) TEL AVIV 4334

1. TEN-COUNT INDICTMENT WAS PREFERRED AUGUST 8 AGAINST YEHOSHUA BENSION, FORMER MANAGING DIRECTOR OF IBB, MAIN POINT OF WHICH WAS THAT HE WAS CHARGED WITH HAVING EMBEZZLED \$47 MILLION FROM IBB, AND TRANSFERRING IT TO THE WILLIAMS FAMILY. (BENSION IS SON-IN-LAW OF DECEASED FOUNDED OF IBB, WALTER NATHAN WILLIAMS.) BENSION HAD BEEN HELD IN CUSTODY SINCE JULY 15 ON SUSPICION. THERE HAVE BEEN PERSISTENT PRESS REPORTS THAT HE HAS NOT COOPERATED WITH INVESTIGATION.

2. SANBAR TOLD KNESSET ECONOMIC COMMITTEE AUGUST 7, THAT LOSSES FROM IBB FAILURE COULD RANGE UP TO IL 185 MILLION (\$44 MILLION). KEY ISSUE IS WHETHER CERTAIN FUNDS DEPOSITED IN SWISS BANKS FROM LONDON BRANCH OF IBB CAN BE RETRIEVED. AS WE RECONSTRUCT MATTER, THESE DEPOSITS WERE ERRONEOUSLY REPRESENTED ON BOOKS OF LONDON BRANCH OF IBB AS CREDITS. HOWEVER, INVESTIGATION SHOWED THAT
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THIS WAS ONE STAGE OF COMPLEX OPERATION WHEREBY IBB LONDON BRANCH

DEPOSITED FUNDS IN SWISS BANKS, UPON CONDITION THAT THOSE BANKS LOAN FUNDS TO COMPANIES IN LIECHTENSTEIN AND LUXEMBOURG, WHICH WERE UNDER CONTROL OF IBB OWNERS (WILLIAMS FAMILY).

3. MEIR HETH, EXAMINER OF BANKS IN BANK OF ISRAEL (BOI), HAS CONFIRMED TO US PRESS REPORTS THAT BOI GOVERNOR SANBAR HAS DECIDED THAT HE COULD NOT RECOMMEND TO CABINET THAT BOI ASSUME RESPONSIBILITY FOR LIABILITIES OF IBB BRANCH IN LONDON, BECAUSE IT HAD ENGAGED IN "UN SOUND AND IRRESPONSIBLE" PRACTICES. (HETH HAD TOLD SECRETARY SIMON JULY 17 THAT BOI HAD THUS FAR DECLINED RESPONSIBILITY, BECAUSE LONDON BRANCH WAS NOT UNDER CONTROL OF BOI.) DECISION WAS REACHED AFTER STUDY OF REPORT BY FIRM OF BRITISH CHARTERED ACCOUNTANTS. BANK OF ENGLAND WAS INFORMED BY CABLE. HOWEVER, FOLLOWING END OF MORATORIUM JULY 29, IBB HAS BEEN PAYING BONA FIDE LOCAL CLAIMS.

4. MEANWHILE, HETH, PUBLICLY ACKNOWLEDGED BOI HAD MADE MISTAKES, ASSUMED OVERALL RESPONSIBILITY FOR FAILURE OF SUPERVISION OF IBB, AND OFFERED HIS RESIGNATION ON AUGUST 3. AT SAME TIME HE REVEALED THAT HE HAD RECOMMENDED THAT IBB BE LIQUIDATED WHEN IT GOT INTO TROUBLE IN 1969-70, BUT WAS OVERRULED BY THEN BOI GOVERNOR HOROWITZ. SANBAR REFUSED TO ACCEPT HETH'S RESIGNATION, STATING THAT THERE WAS NO NEED FOR IT. PROBLEM WITH IBB WAS NOT ONE OF SUPERVISION, BUT OF FRAUDULENT ENTRIES ON BOOKS. SANBAR HINTED THAT HE HIMSELF WOULD RESIGN IF "UNFAIR CRITICISM" OF HIM DID NOT CEASE. CRITICISM OF SANBAR CENTERS ON HIS AUTHORIZATION OF DEPOSIT OF DM 30 MILLION OF BOI RESERVES WITH IBB LONDON BRANCH SEVERAL YEARS AGO. THIS MONEY IS EVIDENTLY LOST.

5. PERIOD DURING WHICH IBB IS UP FOR SALE BY ANY TAKER WILL APPARENTLY BE EXTENDED (REF A). NEGOTIATIONS WITH POSSIBLE CANADIAN BUYER ARE APPARENTLY TALLED ON ISSUE OF WHETHER BOI IS WILLING TO INCREASE SIZE OF ITS GUARANTY TO COVER LOSSES, WHICH NOW EXTENDS ONLY TO MAXIMUM OF \$25 MILLION. A EUROPEAN CONSORTIUM IS ALSO SAID TO BE INTERESTED, BUT THEY WILL SCARCELY BE MORE WILLING THAN CANADIAN TO COVER LOSSES.
KEATING

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